



**Municipal Employees' Annuity and
Benefit Fund of Chicago**

A Pension Trust Fund of the City of Chicago
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Retirement Board

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February 5, 2016

Re: Overturn of Public Act 98-0641 – Fund Solvency

As you may be aware, on July 24, 2015 Illinois Circuit Court Judge Rita A. Novak declared Public Act 98-0641 unconstitutional and permanently enjoined its enforcement. Her ruling voided Public Act 98-0641 in its entirety. The Municipal Employees' Annuity and Benefit Fund of Chicago ("MEABF"), as well as the other defendants in the case, have appealed Judge Novak's decision to the Illinois Supreme Court. They also moved to stay that decision (and leave Public Act 98-0641 in effect) pending the Illinois Supreme Court's decision to the appeal. However, on July 29, 2015, Judge Novak denied the motion and, as a result, MEABF is required to return to the law as it was in effect before Public Act 98-0641. This includes returning to a static multiplier funding mechanism which will guarantee the eventual insolvency of MEABF. Over the last ten years MEABF has received, with the statutory multiple funding mechanism, on average, only 30% of the Actuarially Determined Contribution (ADC) level needed to be considered actuarially sound.

Currently, MEABF incurs operating cash flow deficits on an annual basis that exceed 10% of its total assets. This percentage will continue to grow without a funding mechanism that ensures long-term solvency. It is impossible to grow MEABF's net asset balance with an annual operating cash flow deficit of this magnitude.

Article 8 of the Illinois Pension Code is the governing article relating to MEABF. MEABF must administer the plan in accordance with the laws in this article. As stated within Article 8, eligible members are entitled to receive a monthly annuity for life. As eligible members apply to retire, MEABF must inform them of their benefit entitlement in accordance with the law. Without a funding mechanism that provides long-term solvency, the administration of MEABF in accordance with the laws of Article 8 is at risk.

In view of Judge Novak's ruling, MEABF will begin to prepare to administer the plan in accordance with the law prior to Public Act 98-0641. This unwinding process will be a new endeavor for MEABF and we will want to ensure that it is done in the most efficient and cost effective manner. MEABF projects that the reversal of amendments made by Public Act 98-0641 will take up to 90 days to administer. It is estimated that the overturning of Public Act 98-0641 will cost MEABF \$20 million in increased annuities and returned contributions for 2015 over what had been projected based on Public Act 98-0641.

The overturning of Public Act 98-0641 returns MEABF to a funding mechanism that ensures insolvency. Unless Judge Novak's decision is overturned by the Illinois Supreme Court, MEABF's reserves will continue to be depleted. With the required employer contribution reverting back to a static multiple (1.25x) of employee contributions, the discount rate used to calculate plan liabilities will drop considerably causing a significant increase plan liabilities. MEABF funding ratio for 2015 will plummet.

We want to make sure that you are aware that, if Judge Novak's decision overturning Public Act 98-0641 is not reversed by the Illinois Supreme Court, the effect on MEABF will be much different than the effect of the recent action of the Illinois Supreme Court overturning the statute reforming certain State systems, Public Act 98-0599. The pre-reform law governing the State systems required funding on an actuarial basis and, therefore, ensured

that the systems would remain solvent and be able to continue to pay benefits. That is not the case with respect to MEABF. Unless the Illinois Supreme Court reinstates Public Act 98-0641, MEABF will not receive actuarial or other funding that will ensure its long-term solvency.

For an illustration of the dire circumstances under which MEABF currently operates, please see the attached Pension Fund Overview Report which was prepared jointly with the Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago.

To assist all stakeholders, MEABF stands at the ready to provide any and all information necessary to ensure that the long-term solvency of MEABF is achieved.

Very truly yours,

A handwritten signature in cursive script, reading "Thomas J. McMahon". The signature is written in black ink and is positioned above the typed name and title.

Thomas J. McMahon
Board President